Q. Is it true that Ameritech Illinois has investigated the technical feasibility of RI-PH?

A. Yes, but AT&T has overstated the significance of that investigation. Ameritech Illinois personnel conducted some preliminary research on RI-PH at one point, but those efforts stopped completely once the FCC directed Ameritech Illinois and others to develop long-term solutions by October 1997. This early research indicated that RI-PH might be technically feasible in theory, but it has never been determined whether RI-PH is technically feasible in the field. In addition, this product raises technical concerns regarding its impact on the hub office and on Operations Support Systems. For these and other reasons (discussed above) the Illinois Commerce Commission has refused to require Ameritech Illinois to provide RI-PH. Although the Illinois Commerce Commission left the door open for a Task Force to recommend tariffing of RI-PH after further review, the Task Force has not done so.

Q. Consolidated Communications, Inc.'s comments allege that interim number portability is not currently being provided on a non-discriminatory basis, because its customers must pay for call forwarding. Is this true?

A. No, it is not. Ameritech Illinois has requested that it suspend charges for number portability until the Commission adopts a competitively neutral cost recovery mechanism. Ameritech Illinois has also requested an expedited proceeding to determine such a cost recovery mechanism. The Commission's Interim Order (Nov. 7, 1996) adopted those proposals in Ameritech Illinois' Citation Docket (Ill. C.C. Dkt. 95-0296). Ameritech Illinois has complied with that Order by filing a tariff zero-rating interim number portability, a solution Ameritech Illinois itself proposed.

XII. LOCAL DIALING PARITY

Q. Is Ameritech Illinois in compliance with access to services or information necessary to allowing requesting carriers to implement local dialing parity as required by Section 272(c)(2)(B)(xii) of the Act?

A. Yes it is. This was not a contested issue in the testimony filed by the parties, except for those relating to access to directory assistance and operator services. Issues with respect to these services are addressed by Mr. Heinmiller.

XIII. RECIPROCAL COMPENSATION

Q. AT&T witness Falcone claims that Ameritech Illinois' proposal for the application of reciprocal compensation rates is inconsistent with Section 251 of the Act in that it does not allow AT&T to charge Ameritech Illinois for tandem switching when AT&T does not actually provide a tandem switching function. (Falcone, p. 12). Please comment.

A. This issue has been raised in a number of arbitration proceedings and will be resolved there, but, in any case, Ameritech Illinois has taken a position which is reasonable and is consistent with both the Act and with standard rate structure principles. Ameritech Illinois believes that the principles of cost-based pricing and nondiscrimination require that a "tandem" termination rate should be applicable for the termination of its local calls on a CLEC's network only when two conditions are met:

1) the CLEC offers, and Ameritech Illinois chooses to utilize, actual tandem (i.e., trunk-to-trunk) switching functionality; and

2) the CLEC offers Ameritech Illinois the option to connect directly to its end office and terminate calls at the end office termination rate (bypassing the CLEC tandem), just as Ameritech Illinois offers such an option to the CLECs.

If a CLEC believes that its end office termination rate should be higher than Ameritech Illinois' rate, it has the opportunity to demonstrate that its costs support a higher rate. Otherwise, the Commission should not adopt

reciprocal compensation rates that clearly do not reflect the underlying costs of the carriers, nor should it compensate CLECs for a phantom tandem switching function they are not performing.

Q. What would be the impact of adopting AT&T's position on tandem switching?

A. If AT&T's position were adopted, it would end up receiving a "double dip" where it would be compensated twice for the same functions, once as tandem switching and transport and once as local switching and termination. Under AT&T's proposal, it would receive a double payment even though it did not provide either tandem switching or transport.

Q. Do you believe that AT&T's proposal is consistent with the Act?

A. No I do not. First, I understand that the FCC Rule (¶ 51.711(a)(3)) that would have required such compensation has been stayed by the Eighth Circuit. In addition, it is clear that Section 252(d)(2) provides that state commissions shall "provide for the mutual and reciprocal recovery by each carrier of costs associated with transport and termination on each carrier's network facilities..." Thus, under the Act, new LECs are entitled to receive compensation for tandem switching and transport functions

only when they actually perform those functions and incur the associated costs, even if the functions are not performed identically to the manner in which the interconnection incumbent LEC performs them. But when all that is being provided is local switching and local termination of calls to its own end users, the new LEC is only entitled to receive compensation for that function. For this reason, Ameritech has filed pleadings on reconsideration requesting that the FCC withdraw its rule.

XIV. RESALE

Q. Please comment on Ameritech Illinois' compliance with Section 271(c)(2)(B)(xiv) regarding resale.

A. The subject of resale is addressed by Mr. Gebhardt.

Q. Does this conclude your testimony?

A. Yes, it does.

REBUTTAL TESTIMONY OF DAVID H. GEBHARDT

QUALIFICATIONS

Q. Please state your name and business address.

A. David H. Gebhardt, Ameritech Illinois, 225 West Randolph Street, Chicago, Illinois 60606.

Q. Are you the same David H. Gebhardt who provided testimony previously in this proceeding?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to respond to the direct testimony submitted by the Commission Staff; AT&T Communications of Illinois, Inc. ("AT&T"); Sprint Communications L.P. ("Sprint"); MCI Telecommunications Corporation ("MCI"); the Competitive Telecommunications Association ("CompTel"); MFS Intelenet of Illinois,

Inc. ("MFS"); Consolidated Communications of Illinois ("CCI") and the comments submitted by the Attorney General. I will respond in general terms to the policy positions and recommendations of those parties, to certain issues which are not related to specific checklist requirements and to certain tariff and service issues raised by the parties.

Ameritech Illinois is also submitting a rebuttal legal memorandum. This memorandum addresses the legal memoranda submitted by the other parties and "policy" issues raised in testimony that are, in fact, legal issues.

SUMMARY OF CHECKLIST COMPLIANCE

Q. What does Ameritech Illinois have to demonstrate for the Commission to certify that the checklist has been fully implemented?

A. Ameritech Illinois must demonstrate the following four things:

(1) that it provides, or generally offers, to competitive carriers all of the checklist items;
(2) for those checklist items subject to Section 252(d) pricing standards, that such prices have been established;

(3) that Ameritech Illinois is operationally ready to offer the checklist items; and

(4) that nondiscriminatory performance reporting mechanisms are in place to permit monitoring of the Company's compliance.

Q. Has the Company satisfied these criteria?

A. Yes. Ameritech Illinois described its general offering of all of the checklist items in its direct testimony. Mr. Dunny, Mr. Bell and I respond to the contentions of the parties in our rebuttal testimony. As this testimony demonstrates, Ameritech Illinois is also actually providing most of the competitive checklist items to facilities-based carriers. Prices for all checklist items are established by contract; existing tariffs; the Section 252(f) General Statement, which will be conformed once the AT&T arbitration decision is final; and the Company's revised wholesale tariff filed on November 19, 1996, when it becomes effective.

Ameritech Illinois' operational readiness is described in the rebuttal testimony of Mr. Mickens, Mr. Heinmiller, and Mr. Bell in response to the contentions of other parties that the necessary support systems are not in place.

Mr. Mickens also describes the performance commitments and reporting mechanisms which the Company will provide to demonstrate that it is in compliance with the parity and nondiscrimination requirements of the federal Act and the FCC's order in Docket 96-98.

Q. Would you summarize the status of Ameritech Illinois' compliance with the checklist?

A. Yes. The Company is either in compliance or will be in compliance with all checklist items by the end of 1996. I have prepared a matrix summary for each checklist item which includes the following information: (1) whether the item is currently being provided to competitive LECs ("CLECs"), today; and, if not, whether it is available; (2) if the checklist item is subject to the Section 252(d) pricing requirements; where those prices have been developed; and (3) whether the requisite operational support systems ("OSS") have been completed. This matrix is attached as my Schedule 1.

POLICY ISSUES ASSOCIATED WITH CHECKLIST COMPLIANCE

Q. How would you characterize the direct testimony filed by the other parties in this proceeding?

A. In Ameritech Illinois' view, the IXCs (i.e. AT&T, MCI, Sprint and CompTel) have advocated policy positions and argue for the imposition of additional requirements that have no foundation in the federal Act.

MFS and CCI have presented relatively straight-forward analyses of the services which Ameritech Illinois is providing in the marketplace today as they relate to the checklist. Although the Company does not fully agree with all of their representations, the areas of difference are relatively small.

With respect to Staff, the Company has some disagreement with Ms. TerKeurst's apparent conclusions regarding how the Section 271 requirements should be interpreted. Most of the other Staff witnesses have deferred their recommendations to the rebuttal phase, pending receipt of additional information. Therefore, the Company is not able to respond substantively to them at this juncture.

Q. Would you summarize the IXCs' policy position relative to checklist compliance?

A. Yes. Although the IXCs approach the issue in somewhat different ways and use different terminology, their positions all reduce to one fairly consistent view:

i.e. that Ameritech Illinois must meet a two pronged test: (1) the checklist must be fully implemented, tested and operational; and (2) competitors in the local exchange marketplace must, in fact, be successful and must have obtained significant market shares.

Representative of the first prong of the test is AT&T's contention that checklist items be "clearly defined, actually available in sufficient capacity...and [subject to] a meaningful period of operational experience...in the marketplace" (Puljung, pp. 20-21). Representative of the second prong of the test is AT&T's contention that the local exchange marketplace must be "effectively competitive" using the standards in the Commission's Order in Docket 95-0135 (Starkey, pp. 4-10); Sprint's contention that interconnection agreements must be working in practice "on a commercial scale" (Shapiro, p. 3); and CompTel's "Competitive Presence" test, which requires an "empirical demonstration that competition is succeeding" (Gillan, p. 13).

Q. Do you agree with the IXCs' position on checklist implementation (i.e. the first prong of their test)?

A. Ameritech Illinois does agree that any interconnection arrangements or other checklist

providing to a carrier that satisfies the so-called "Track A" provisions of the Act must be in place and operational. Additionally, all remaining checklist item must be available to such carrier and Ameritech Illinois must have fully implemented them in the event such carrier wishes to obtain access to them. I do not agree, however, that the extensive, post-implementation "operational testing" which the IXCs call for is necessary or warranted. I will discuss this in more detail later in my testimony, as does Mr. Mickens.

Even more significant from a policy perspective, however, is the IXCs' contention that, in order to satisfy "Track A", every checklist item -- even if it has not been requested by the Track A carrier -- must be provided to and be operational for such "Track A" carrier. This is not supported by the federal Act, as demonstrated in the Company's initial and rebuttal legal memoranda. However, it also makes no sense from a policy perspective.

The easiest way to see the policy defects in the IXCs' position is relative to unbundled switching. Unbundled switching has two principal applications: (1) for use by a competitive LEC that owns loops, but no switching capability, on a stand-alone basis; or (2) for use as

part of an end-to-end "rebundled" service akin to resale.

I have seen no evidence that there will be any material demand for unbundled switching on a stand-alone basis. Certainly, the facilities-based carriers currently operating in the local exchange marketplace (i.e. MFS, TCG, MCIMetro, and CCI) have no use for unbundled switching -- they have their own switches. Similarly, everything that the IXCs have said about their facilities-based entry into the local marketplace suggests that they will have switching capabilities in place well before they install their own loops. Thus, they will not want unbundled local switching on a stand-alone basis either.

The only foreseeable major market entrant which would be loop-based is the CATV industry. Even CATV providers, however, will likely install their own switching capability. Switching is inexpensive (relatively speaking); it provides the carrier with the ability to offer value-added services and billing capabilities that are desired by customers; and it provides the carrier with the ability to provide those services which generate the highest profit margins today (e.g. usage, operator services and central office features). In my view, it is a much more attractive

business proposition to install a switch and resell loops than to install a loop and resell switching -- unless, of course, the Commission establishes such uneconomically low prices for unbundled switching that new entrants cannot justify investment in their own facilities.

Q. Haven't AT&T and MCI requested unbundled switching in the arbitrations and couldn't those requests satisfy Track A?

A. AT&T and MCI have requested terms and conditions for each checklist item. They have not, however, requested that each item actually be provided to them; they have not requested an implementation schedule for each item; and they have not committed to purchase each item. I believe, moreover, that AT&T and MCI intend to use unbundled local switching as part of an end-to-end "rebundled" service, akin to resale, based on any pricing advantage that rebundling appears to offer.

As indicated in both its initial and the rebuttal legal memoranda, Ameritech Illinois takes the position that use of unbundled network elements does constitute facilities-based service. Both MCI and Sprint contend, however, that this is not facilities-based service and would not qualify under Track A (MCI Legal Memorandum,

pp. 14-15; Sprint Legal Memorandum, p. 10). AT&T will undoubtedly take the same position.

Under the IXCs' view, therefore, even if Ameritech Illinois offered unbundled switching to AT&T and MCI pursuant to an agreement, it would not "count" for checklist purposes unless AT&T and MCI were facilities-based carriers independent of the use of network elements. Since these carriers intend to enter the local marketplace either using the wholesale tariff or rebundled unbundled network elements, they would not qualify as Track A carriers under their definition of "facilities-based" for some period of time. Moreover, once they do qualify as Track A carriers, they will presumably be facilities-based because they have switches in place. Even when they install loops, these loops will in all likelihood connect the IXCs' customers to the IXCs' own switches -- not to Ameritech Illinois' unbundled local switching element. Therefore, there is no scenario under which the IXCs will ever be a Track A carrier under their definition and subscribe to unbundled local switching.

Q. Would Track B be available to Ameritech Illinois for unbundled local switching in that circumstance?

A. Not according to the IXCs (Sprint Legal Memorandum, pp. 24-25; MCI Legal Memorandum, pp. 21-23). Ameritech Illinois disagrees.

Q. What are the implications of the IXCs' position?

A. The logical implication of their position is that Ameritech Illinois would be prohibited from entering the interLATA marketplace until a competitor surfaces in the local marketplace which wants to provide loops and nothing more. Since such a competitor does not exist today and will, in my judgment, not likely emerge, this would translate into a permanent prohibition. Meanwhile, the IXCs would be free to enter and ultimately dominate the local exchange marketplace with a complete offering of interstate, intrastate and local services. Such a result is clearly contrary to Congress' intent in passing the new Act and this Commission's long-standing pro-competitive policies.

Q. What is Staff's position on these issues?

A. Staff's position is not entirely clear. In her testimony, Ms. TerKeurst reserves judgment on the question of whether Track A applications can be supplemented with offerings in a Section 252(f)

Statement of Generally Available Terms (TerKeurst, p. 11). However, she then interprets the terms "provide" and "is providing" in a manner that seems to preclude use of a Statement offering to supplement Track A applications (TerKeurst, pp. 15-16). If that is, in fact, Staff's ultimate position in this proceeding, then it suffers from precisely the same policy defects which I just described.

Q. Are there any other aspects of the IXCs' position that make Track A even less achievable?

A. Yes. Both Sprint and MCI interpret the Track A requirement that the carrier use "predominantly" its own facilities in such a way as to exclude virtually all of the competitors that exist today. Sprint, for example, claims that the carrier must own more than 50% of the local loops it uses (Sprint Legal Memorandum, pp. 19-20). MCI suggests that a substantial loop investment may be required because that is the biggest chunk of network investment and cost is the number one item on MCI's list of "predominance" factors (MCI Legal Memorandum, pp. 17-19).

The Company's rebuttal legal memorandum addresses this approach from a legal and statutory perspective. From a policy perspective, it is equally untenable.

If adopted, this view of "predominantly" could significantly impact any possibility of RBOC entry into the long distance marketplace for the foreseeable future. As I see this marketplace developing, it is not clear whether competitive LECs will own 50% of their loops. Today, MFS and TCG do have the capability to provide a significant amount of service over their own loop facilities. However, since I have not seen MFS' proprietary information and TCG provided no information at all, I cannot comment on whether they would qualify under the IXCs' "predominant" standard. The other possible entrant that might meet it is the CATV industry -- however, it has yet to deliver on its stated intention to enter the market for telecommunications service.

From a policy perspective, any definition of "predominantly" must not be based on cost, but rather on the functional and revenue-generating importance of the facilities to the competitor. The local exchange marketplace is switch-driven, not loop-driven. Although central office investment represents only 39% of Ameritech Illinois' network, it is competitively the most significant. Switching capabilities provide the features and service capabilities that customers are demanding; they will permit competitors to

differentiate their services; and they will be the source of the new and innovative product offerings which are expected to result from competitive entry. As I indicated previously, switches are also the "profit centers" for local exchange service. Accordingly, the IXCs' position ignores the real dynamics of this marketplace and should be rejected.

Q. Do you agree with the IXCs' second test -- i.e., that Ameritech Illinois must demonstrate that competitors are successful in the marketplace?

A. Absolutely not. As the Company showed in its initial legal memorandum, the federal Act does not permit application of a "metrics" test to determine whether interLATA entry should be permitted. Staff agrees (TerKeurst, p. 25). Even the IXCs pay lip service to this proposition (Shapiro, p. 15; Gillan, p. 13). However, their public interest tests requiring a demonstration of "effective competition", competition on a "commercial scale" or "successful competition" have precisely the same effect as a market share determination (or metrics) test. The legal memorandum demonstrates that these tests cannot be imposed, consistent with the federal Act.

Q. Mr. Starkey goes further and suggests that the Commission use the standards in Section 13-502(b) to evaluate checklist compliance (Starkey, pp. 5-13). Would you comment?

A. This is a legal issue. However, as a non-lawyer, I cannot imagine how AT&T can seriously argue that Section 13-502(b) should be used to interpret the federal Act. Section 13-502(b) is unique to Illinois and is unrelated to interLATA entry. As I understand it, the federal Act must be interpreted based on its own language and legislative history and there will be a need for consistency on a nation-wide basis.

Moreover, I would note that Section 13-502(b) itself has no market share test or comparable requirements. Although the Commission's decision in the Bands B and C reclassification docket -- a decision with which the Company strongly disagrees -- did examine market share and consumer behavior, it does not support Mr. Starkey's expansive application of that analysis here. The Commission's stated rationale for not following the plain meaning of the language in Section 13-502(b) was a claimed need to interpret the term "functional equivalence" for services subject to different dialing arrangements. There will be no dialing disparity

between the services provided by incumbent and competitive LECs. Therefore, there is absolutely no basis for use of the additional tests imposed by the Commission in the Bands B and C docket.

Q. Several of the parties have argued that competition in the local exchange marketplace today is de minimis. Is that accurate or relevant?

A. No. First of all, it is difficult on this record to determine the level of competitive activity. It is Ameritech Illinois' understanding that TCG refused to answer Staff's data requests and has not filed any testimony, notwithstanding the Commission's order initiating this proceeding. Ameritech Illinois has not been provided with MFS' proprietary information. It should be well-established by now that Ameritech Illinois cannot determine the number of customers and lines which competitors serve over their own facilities -- only the competitors can do that. Mr. Starkey's attempts to estimate self-provisioning are based only on broad averages and should not be used in place of actual data.

The Commission also made clear in its questions that it was interested in the future plans of the carriers

planning on entering the marketplace (e.g. Question 20). AT&T, MCI (as opposed to MCIMetro) and Sprint have provided no information whatsoever responsive to the Commission's questions.

With important factual information missing altogether, or unavailable for review, no definitive conclusions can be drawn about the level of competition that exists today or that is likely to exist in the future.

Second, as previously discussed, there is no metrics or market share test in the federal Act. Therefore, as I understand it, percentage calculations of this sort have no legal significance.

Q. Even if this were a policy issue, is it reasonable from a policy perspective to impose a standard that requires that competitive local entrants be successful as a condition of checklist compliance?

A. No. Neither the Commission nor the FCC can or should guarantee the IXCs success in the local marketplace. That will depend on their marketing and entrepreneurial skills. What is reasonable -- and what, in my view, the Act requires -- is that the <u>conditions</u> be

established whereby they have a fair opportunity to enter and compete. Those conditions will be established when Ameritech Illinois is capable of providing all of the items on the checklist, regardless of how many carriers are in the marketplace and how many actually subscribe to the checklist items. The existence of Track B -- where there are no competitors, yet interLATA entry is permitted -- supports my view of the legislative intent.

Q. Do you have any further comments that are unique to any carrier's position?

A. I find the testimony submitted by Sprint to be particularly disingenuous. Nowhere in Dr. Shapiro's testimony does he acknowledge the Sprint/Centel relationship or justify the high interLATA entry barriers he proposes for Ameritech Illinois when none have been imposed on Centel.

Q. Is this "effective competition" issue one that this Commission must decide?

A. No. Under the federal Act, this Commission's role is to determine whether there is a facilities-based

competitor that satisfies Track A and to evaluate checklist compliance. What the "public interest" standard in Section 271 means is ultimately an issue for the FCC.

COMPETITIVE CHECKLIST IMPLEMENTATION

Q. Several of the parties took the position that additional measures were required to ensure that the checklist services and functionalities have been fully implemented. Would you comment?

A. Yes. As a general proposition, the IXCs have greatly overstated the degree of uncertainty associated with the Company's implementation of the checklist. Because of the Customers First and the Wholesale/Resale dockets, Ameritech Illinois has actually been implementing the checklist over a period of years -- unlike most of the other companies in the country. For example, interconnection arrangements, reciprocal compensation and unbundled loops have been available since May of 1995 when the Customers First order was implemented. Illinois has been in the forefront of implementing both interim and long term number portability. Ameritech Illinois has been providing operator and directory assistance services, 911 capabilities, directory listings and other services to

facilities-based carriers like MFS and TCG under contract for a considerable period of time. Wholesale/resale offerings have been available since February of this year pursuant to agreements with USN and MFS and under tariff.

The relatively small number of areas where development is in its final stages involve the interfaces that will provide electronic access to Ameritech Illinois' operational support systems. These were described in the direct testimony of Mr. Pautlitz and Mr. Alexander. Ameritech Illinois is well aware that these systems must be implemented and operational before the FCC will grant a Section 271 application. The FCC established a deadline of December 31, 1997, to implement these systems. Ameritech Illinois will be one of the few companies in the country to meet this deadline. Mr. Mickens' testimony discusses these issues in detail.

Q. **Is the kind of "field testing" and extensive operating experience described by the IXCs necessary or warranted?**

A. No. As described by Mr. Mickens, these systems will be thoroughly tested before they are implemented. Any operational fine-tuning that is required can take place